

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

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June 3, 2008

Mr. Patrick J. Minturn, Director of Public Works  
Shasta County Department of Public Works  
1855 Placer Street  
Redding, CA 96001-1759

Re: Shasta County Department of Public Works  
Audit of Indirect Cost Rate Proposal FY 2006/07  
File No: P1190-0679

Dear Mr. Minturn:

We have audited the Shasta County (County) Department of Public Works' (DPW) Indirect Cost Rate Proposal (ICRP) for the fiscal year ended June 30, 2007 to determine whether the ICRP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department's) Local Programs Procedures (LPP) 04-10. The DPW management is responsible for the fair presentation of the ICRP. The DPW proposed a first tier indirect cost rate of 23.35% and a second tier indirect cost rate of 29.19%. The first tier rate is a percentage of DPW general and administrative (G&A) indirect costs to total direct salaries and wages plus fringe benefits. The second tier rate is a percentage of Engineering indirect costs to total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the DPW. Therefore, we did not audit and are not expressing an opinion on the DPW's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the DPW, as well as evaluating the overall presentation.

The accompanying ICRP was prepared on a basis of accounting practices prescribed in the

OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of the DPW in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRP, a review of the County's single audit report for the fiscal year ended June 30, 2007, inquiries of DPW personnel and reliance placed on the single audit report for the fiscal year ended June 30, 2007 and prior audit work completed on May 9, 2005. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

## **AUDIT RESULTS**

Based on audit work performed, the DPW's ICRP for the fiscal year ended June 30, 2007 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate for the first tier of DPW G&A costs is 23.35% of direct salaries and wages plus fringe benefits. The approved indirect cost rate for Engineering is 29.19 % of total direct salaries and wages plus fringe benefits. The approval is based on the understanding that a carry-forward provision does not apply and no adjustment will be made to previously approved rates as these rates were developed based on actual costs.

This report is intended solely for the information of the DPW, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Mr. Patrick J. Minturn  
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Please retain the approved Indirect Cost Rate Proposal for your files. Copies were sent to the Department's District 2, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Mohammad Eslamian, Auditor, at (916) 323-7865 or Zilan Chen, Audit Supervisor, at (916) 323-7877.



MARYANN CAMPBELL-SMITH  
Chief, External Audits

#### Attachments

c: Brenda Bryant, FHWA  
Sue Kiser, FHWA  
Gary Buckhammer, Division of Accounting  
John Pedersen, Local Assistance, District 2

File copy: P1190-0679

**Shasta County Department of Public Works  
Indirect Cost Allocation Plan**

The indirect cost rates contained herein are for use on grants, contracts, and other agreements with the Federal Government and the California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Shasta County Department of Public Works and approved by Caltrans.

**SECTION I: Rates**

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate</u>	<u>Applicable To</u>
<u>First Tier:</u>			
Final	7/1/06 to 6/30/07	23.35 %	All Programs

Base: Total Salaries and Wages plus fringe benefits.

<u>Second Tier:</u>			
Final	7/1/06 to 6/30/07	29.19 %	Engineering

Base: Salaries and Wages charged to Projects plus fringe benefits

**SECTION II: General Provisions**

**A. Limitations:**

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available.

Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rates would be subject to renegotiations at the discretion of the Federal Government or Caltrans; (5) Actual costs used in the calculation of the approved rates are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133.

**B. Accounting Changes:**

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowance.

**C. Final Rate:**

The final rates used in this Agreement are based on actual costs for the period covered by the rates. As a result, a carry-forward provision does not apply.

**D. Audit Adjustments:**

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

**E. Use by Other Federal Agencies:**

Authority to approve this Agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant federal agency.

The approval will also be used by Caltrans in state-only funded projects.

**F. Other:**

If any federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rates in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rates to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

**G. Rate Calculation**

	First Tier	Second Tier
Fiscal Year 2007	G & A	Engineering
Actual Pool Costs	1,629,092.43	739,678.45
Labor Allocation Base	6,978,039.61	2,533,711.20
Rate(s)	23.35%	29.19%

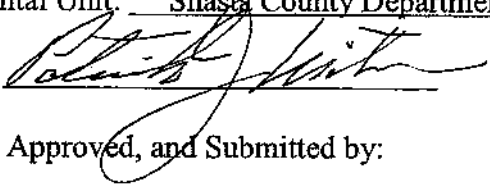
## CERTIFICATION OF INDIRECT COSTS

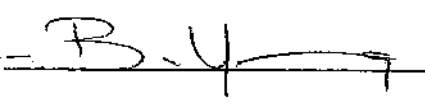
This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief: (1) All costs included in this proposal to establish billing or final indirect cost rates for fiscal year 2007 (July 1, 2006 to June 30, 2007) are allowable in accordance with the requirements of the federal and state award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to federal and state awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Except as identified in the attachment to this certification related to direct and indirect labor, similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the final rates.

I declare that the foregoing is true and correct.

Governmental Unit: Shasta County Department of Public Works

Signature: 

Signature: 

Reviewed, Approved, and Submitted by:

Prepared by:

Name of Official: Patrick J. Mintum

Name of Official: Barbara Young

Title: Director

Title: Chief Fiscal Officer

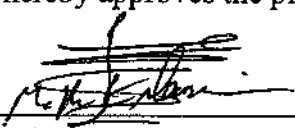
Date of Execution: 5/15/08

Phone: (530) 225-5661

## INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature: 

Signature: 

Reviewed and Approved by:

(Name of Audit Manager) Mary Ann Campbell Smith

Title: Chief, State Audits

Date: 5/26/08

Phone Number: (916) 323-7105

Reviewed and Approved by:

(Name of auditor) Mohannad Eslanian

Title: AUDITOR

Date: 6/3/08

Phone Number: (916) 323-7865